

# Social Policy and Its Transformative Role in a Development Context: Lessons from the Korean Experience

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Within the past 30-40 years Korea has accomplished:

- 1) successful state-led industrialization
- 2) successful transition to a stable democracy
- 3) successful establishment of a comprehensive and universal social security system



# Research Questions

- Examine a historical pathway to the development of the Korean welfare system/regime from the perspective of the transformative role of social policy
  - By focusing on what Korea has done in a distinctive way to link social policies to economic development under the conceptualization of the transformative role of social policy incorporating the theoretical perspectives of the ‘varieties of capitalism’ and the logic of late industrialisers
  - Drawing out some lessons to the current developing countries from the Korean experience



# Analytical Framework

- Defining social policy in the context of late industrialisers
  - Necessary to extend the traditional narrow conceptualization of the social policies/social welfare based on the government's expenditures
  - There are some 'functional equivalent' policies;
    - i.e. land reform, corporate welfare, the government subsidies to the agricultural sector and some public utilities, public work-related programs, and other government's regulations
  - Need to use the concept of "welfare regime"
  - Any single social policy cannot play a transformative role in the economy



# Analytical Framework

- The Role of the Developmental State and its Institutional Features
  - State autonomy (embedded autonomy) (Evans, 1995)
  - State capacity (organizational/administrative capacity)
  - The states with these institutional features made its own society and economic more transformative than other countries without them.
  - More important is to understand the organizational and institutional arrangement of the developmental state.



# Analytical Framework

- ‘Developmental Welfare Regime’
  - Previous research on the developmental state in East Asia have been less concerned about the developmental state’s role in constructing the welfare system and how it linked to the successful industrialization
  - The Korean developmental state was an architecture in constructing “developmental welfare regime” throughout the industrialization process.
  - The institutional features and functions support to the developmental strategies.

Ideologies and functions	<ul style="list-style-type: none"> <li>● <b>A strong developmental ideology</b> deeply embedded in the welfare system as well as other social and political institutions</li> <li>● <b>Conservative ruling coalition between the state and business</b>; the labor excluded or incorporated</li> <li>● <b>Subordination of social welfare policies to the industrialization and macro-economic policies</b></li> <li>● <b>Strong fiscal conservatism</b>; public financing skewed to economic investment rather than welfare</li> <li>● <b>Employment-related or industrial achievement model/ benefits through work</b></li> </ul>
Formal structure	<ul style="list-style-type: none"> <li>● <b>Social insurance programs as a main welfare system</b> with the state's minimal contribution to the fund</li> <li>● <b>Very strict provision in public assistance</b></li> <li>● <b>The least development of social services</b>; the least state's direct provision of social services; instead the state subsidized and regulated non-profit service organizations; especially the state regulated and subsidized non-profit organizations in the area of education and health</li> <li>● <b>Focus on human capital development</b>; especially education and vocational training</li> <li>● <b>Corporate welfare</b>, but different from the liberal model/initially the corporate welfare regulated or subsidized by the state</li> </ul>
Effects	<ul style="list-style-type: none"> <li>● <b>Minimal income protection/very low decommodification/</b> high stratification/strong emphasis on work incentives</li> <li>● <b>Dualist and regulated welfare system</b>: high level of public and private benefits in the large business sector and low level of public and private benefits in the small and medium industrial sector and the social marginal sector</li> </ul>



# Analytical Framework

- Conceptualization of transformative role of social policy?
  - Current developing countries are implementing a wide range of forms of social transfer programs, but many of them are short-term relief programs to the victims of disaster or immediate needs of the poor.
  - They lack some transformative functions for triggering and sustaining the economic development
  - We need theoretical knowledge and empirical evidences for understanding the linkages between economic and social development (Mkandawire, 2004)





# Analytical Framework

- What are the Transformative Roles of Social Policy?
  - protection, redistribution, production, reproduction (Yi, 2010)
  - Social policy organizing economic, social and political institutions for reducing poverty and inequality on the one hand, facilitating economic growth on the other (Mkanawire, 2004, 2008)



# Analytical Framework

- To specify causal mechanisms of transformative role of social policy:  
Incorporated the theoretical perspectives of 'Variety of Capitalism'
  - 'Institutional complementarities' between production and welfare regimes
  - 'Modes of coordination' within each regime and between regimes/market, state-dominant/large-business dominant
  - i.e., skill regime, income protection, employment, protection, patient capital, saving regime, corporate governance, wage restraints and bargaining, labor relations



# Analytical Framework

- Causal Mechanism of Transformative Role of Social Policy: Incorporating of the perspective of 'Variety of Capitalism'
- See <Figure 1>

Globalization/Technological Change

Timing of Industrialization  
Historical Path to Development  
Democratization/socio-economic changes  
Political Regime/Ruling coalition

## Transformative Role of Social Policy

Institutional Complementarities  
Innovation Functions

Modes of Coordination  
State/Market/Large-business-dominant/  
Corporatist/consensus

**Social  
Function**

Skill/knowledge  
Development

Security  
Risk protection  
Income protection  
Poverty reduction

Funds/Savings

**Economic  
Function**

Human  
Capital Formation

Labor Market  
Coordination/  
labor relations,  
wage bargains

Capital Formation/  
Financial System/  
Corporate Governance

Welfare regime  
Public welfare/Social Security  
Corporate welfare  
Social protection functions  
Income/Employment/  
Unemployment protection

Political Legitimacy

Social and economic development



# Historical Pathway to the Korean Developmental Welfare Regime(1)

- Land Reform
  - profoundly affected class and state formations and the industrialization
  - Demise of the power of landlord classes
  - State-business alliance
  - Relatively equal distribution of wealth and income
  - Increasing social mobility



# Historical Pathway to the Korean Developmental Welfare Regime(2)

- The Emergence of Developmental State: the reorganizing of state structure and calibrating the role of the state in the industrialization (1960s)
  - Administrative reforms: EPB (Economic Planning Board)
  - The recruitment of competitive bureaucrats
  - Economic planning
  - Party reform
  - Purging the political and economic corruptions



# Historical Pathway to the Korean Developmental Welfare Regime(3)

- The Heavy and Chemical Industrialization and the Development Welfare Regime (1970s – 1986)
  - Emergence of social insurance programs
    - Work Injuries Compensation Insurance (1971)
    - National Pension Program (1973)
    - Medical Insurance (1977)
    - Covered the core workers in the industrialization
    - Fiscally and administratively efficient



# Historical Pathway to the Korean Developmental Welfare Regime(4)

- Institutionalization of pro-growth developmental welfare regime
- Macro-economic policies and conservative fiscal structure





# Historical Pathway to the Korean Developmental Welfare Regime(5)

- Skill regime formation for the HCI and corporate welfare
  - The government's establishment of the vocational training system
  - Regulated the business to encourage on-the-job training
  - The role of corporate welfare for keeping the high-skilled workers



# Historical Pathway to the Korean Developmental Welfare Regime(6)

- The emergence of the dual labor market and the problems of wage coordination
- Rural development and Functional equivalents



# Historical Pathway to the Korean Developmental Welfare Regime(7)

- Democratization and the Expansion of the Developmental Welfare Regime (1986-1997):



# Historical Pathway to the Korean Developmental Welfare Regime (8)

- Economic Crisis and New Challenges: Continuity and Change of Developmental Welfare Regime
  - Neo-liberal Reforms
  - Productive Welfare Reforms under the Kim Dae Jung Government(1997-2002)
- Roh Moo-hyun Government's Vision 2030 and Social Investment State (2003-2007)



# Lessons from the Korean Experience (1)

- The Korean welfare regime (developmental welfare regime) became an integral part of the successful industrialization and the production regime in Korea and supported to the successful industrialization.
- The developmental state had played an active role in coordinating the labor market, industrial relations, skill development, and the minimal security of income and risks, and enhancing the political legitimacy of the authoritarian development state.



# Lessons from the Korean Experience (2)

- In the different phase of industrialization, the Korean state had played a certain role in adapting to the social and economic problems, and developed some social policies playing a certain degree transformative roles in the economic development.



# Lessons from the Korean Experience (3)

- The land reform and the state reform toward a developmental state became crucial institutional conditions for the transformative role of social policy
- Especially, the Korean state effectively mobilized human capital and skill development during the early and HCI industrialization phase.



# Lessons from the Korean Experience (4)

- In fact, the main role of the income protection and poverty reduction of the Korean developmental welfare regime has been minimal. Those functions had been actually performed by the high economic growth with increasing employment and other functionally equivalent policies such as land reform and the *Saemaul Undong*.
- Social insurance programs played an important role in risk protection of the core workers in the early industrialization phase and ordinary citizens in the matured phase of the industrialization and after democratization.





# Lessons from the Korean Experience (5)

- In spite of all these positive contributions to the industrialization process, the Korean welfare system is today in crisis to meet new challenges such as the labor market change, rapid aging with low fertility, and globalization.
- Finally, these relatively successful transformative role of the Korean welfare regime were not possible without the institutional capability of the developmental state.
- In conclusion, the development of transformative social policy should be accompanied by the reforms of the state institutions.

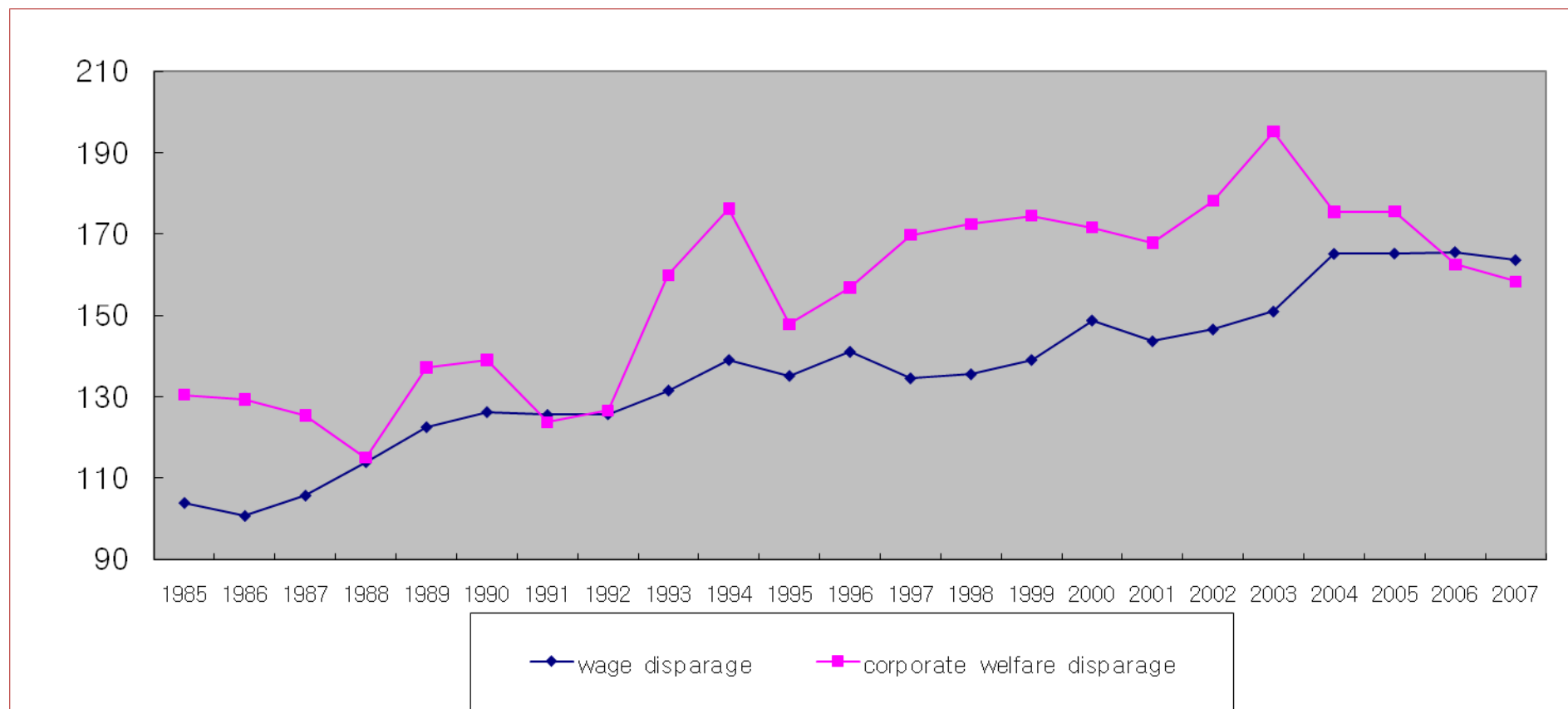


# Labor Productivity and Wages





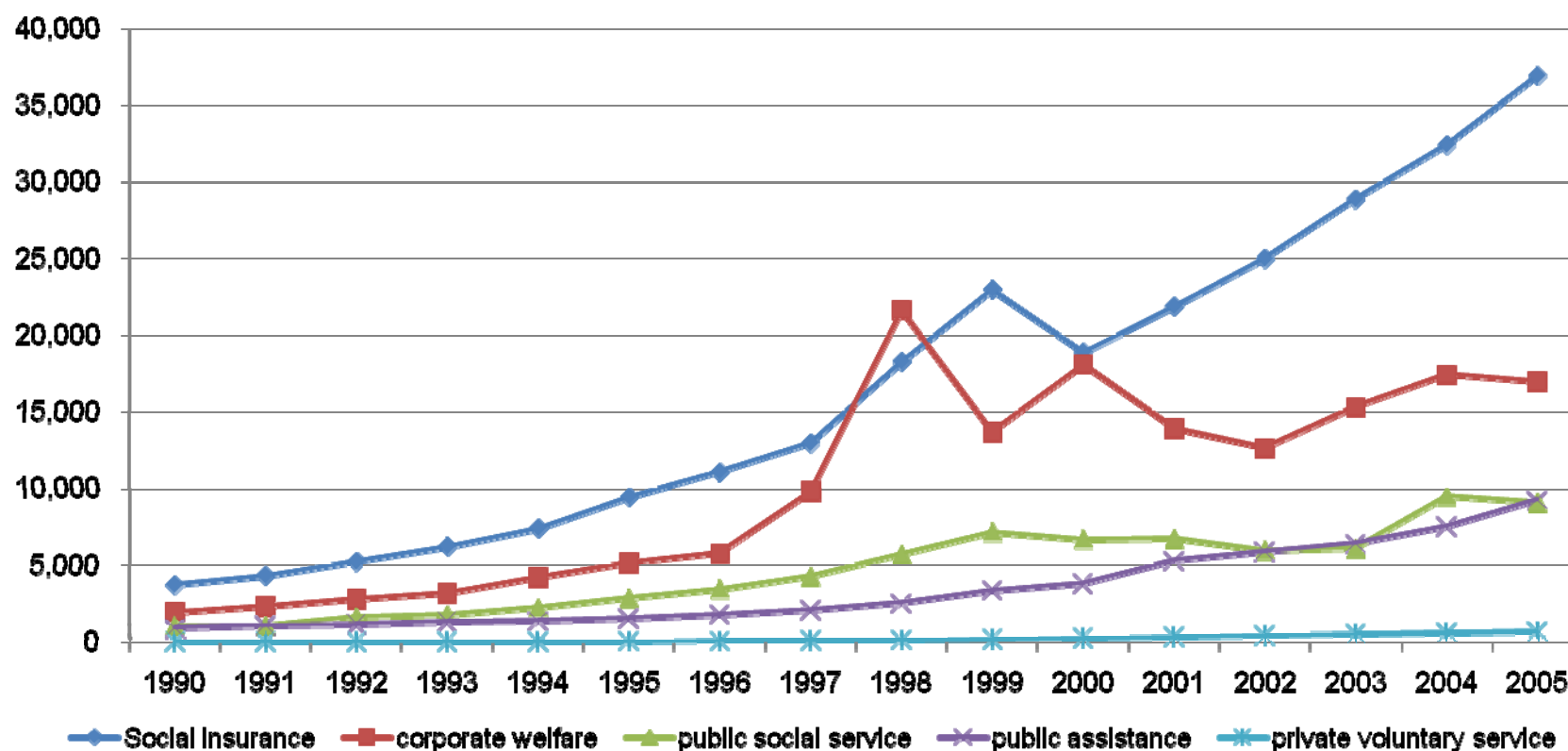
## Disparages in Wage and Corporate Welfare between large, small, and medium-size firms (thousand won)



Source: Labor statistics, various years. Korea Labor Institute.



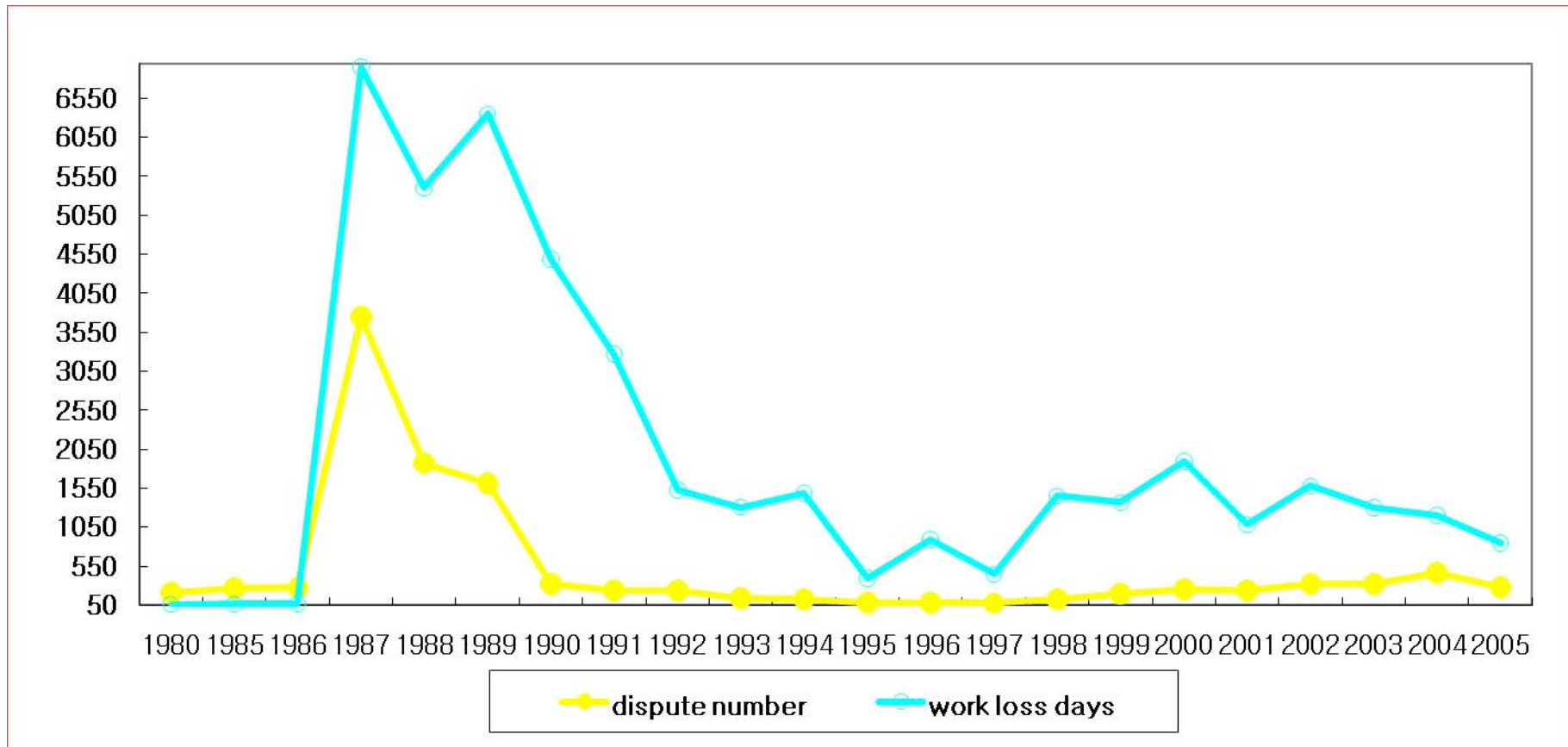
## Comparison of Public and Private Welfare (1990-2005) (million won)



Ko and et al.(2007). P. 107.



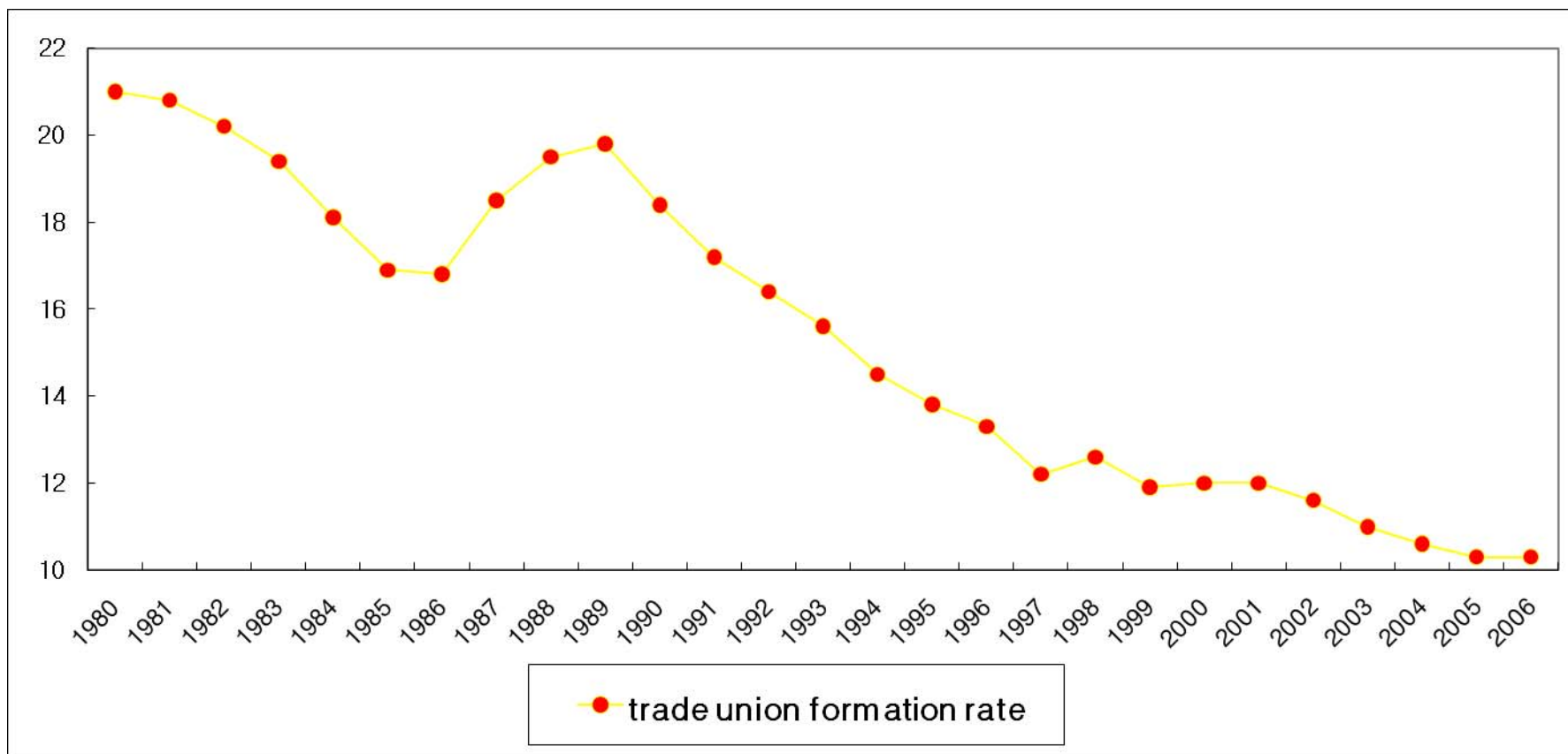
## Labor Dispute Trend in Korea



Source: Labor Statistics, Korea Labor Institute



# Labor Union Density



Source: Labor statistics, various years. Korea Labor Institute.

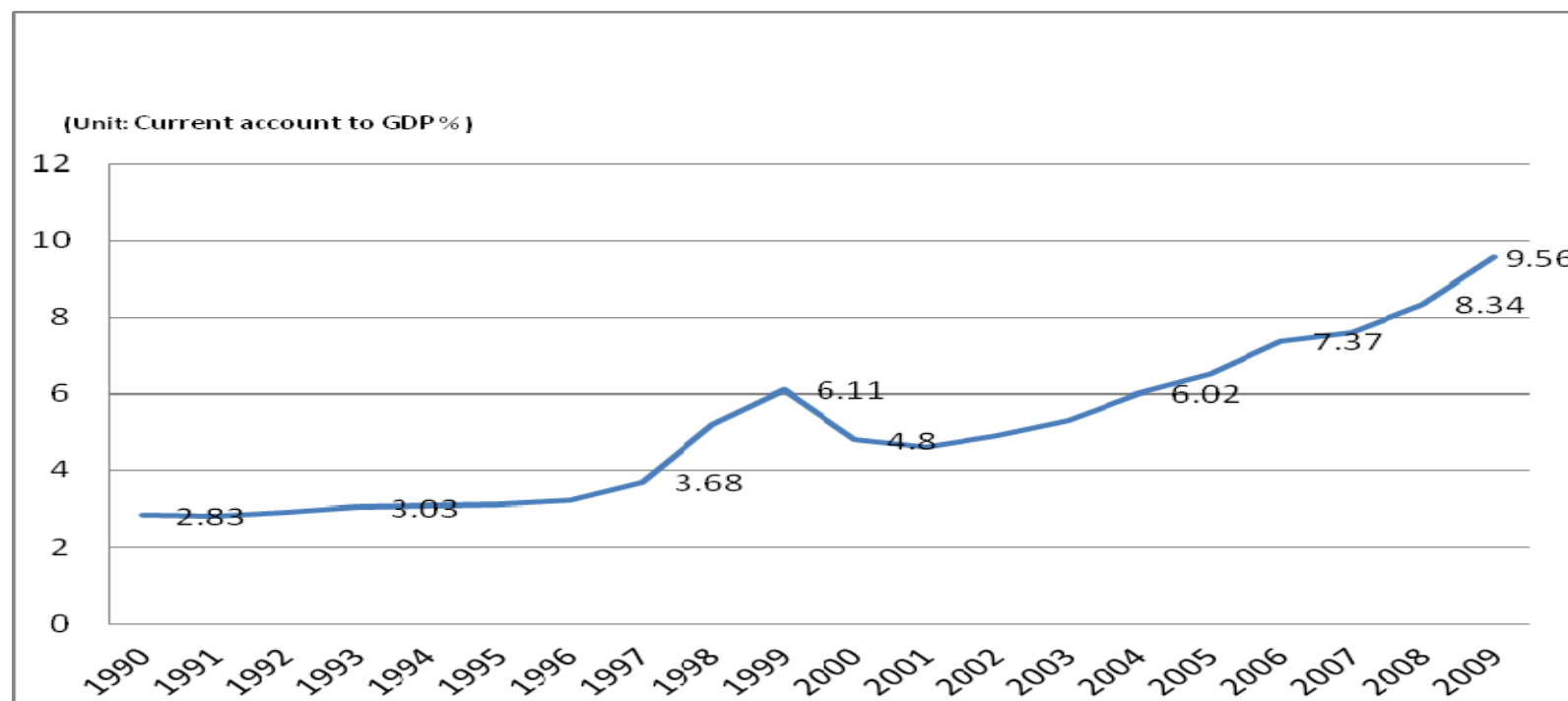


## Actual receiving rate of major social insurances

Year	Total employee (thousand)	Non-agriculture employee		Social insurance real application percent			
		thousand	Total %	Public pensions	Health insurance	Workers' safety insurance	Unemployment insurance
1985	14,970	11,165	74.6	5.5	44.1(51.1)	40.3	•
1990	18,085	14,629	80.9	31.2	1)	51.6	•
1995	20,414	17,729	86.8	41.1	•	44.5	23.7
1996	20,853	18,237	87.5	42.2	•	44.7	23.7
1997	21,214	18,644	87.9	40.3	•	44.2	23.0
1998	19,938	17,330	88.9	38.8	•	42.8	29.7
1999	20,291	17,765	87.6	58.5 (85.7)	•	41.9	34.1
2000	21,156	18,650	88.2	60.8 (81.9)	•	50.9	35.2
2001	21,572	19,125	88.7	59.9 (80.70)	•	55.3	36.1
2002	22,169	19,771	89.2	60.4 (79.6)	•	52.9	36.2
2003	22,139	20,189	91.2	62.2 (82.9)	•	51.8	35.6
2004	22,557	20,732	91.9	60.0 (80.8)	•	50.0	36.4
2005	22,856	21,041	92.1	60.0 (80.3)	•	56.8	38.2
2006	23,151	21,366	92.3	60.7 (82.0)	•	54.2	39.8
2007	23,433	21,707	92.6	61.6 (83.4)	•	57.2	14.6



## Trend of Public Social Expenditure in Korea (% of GDP)

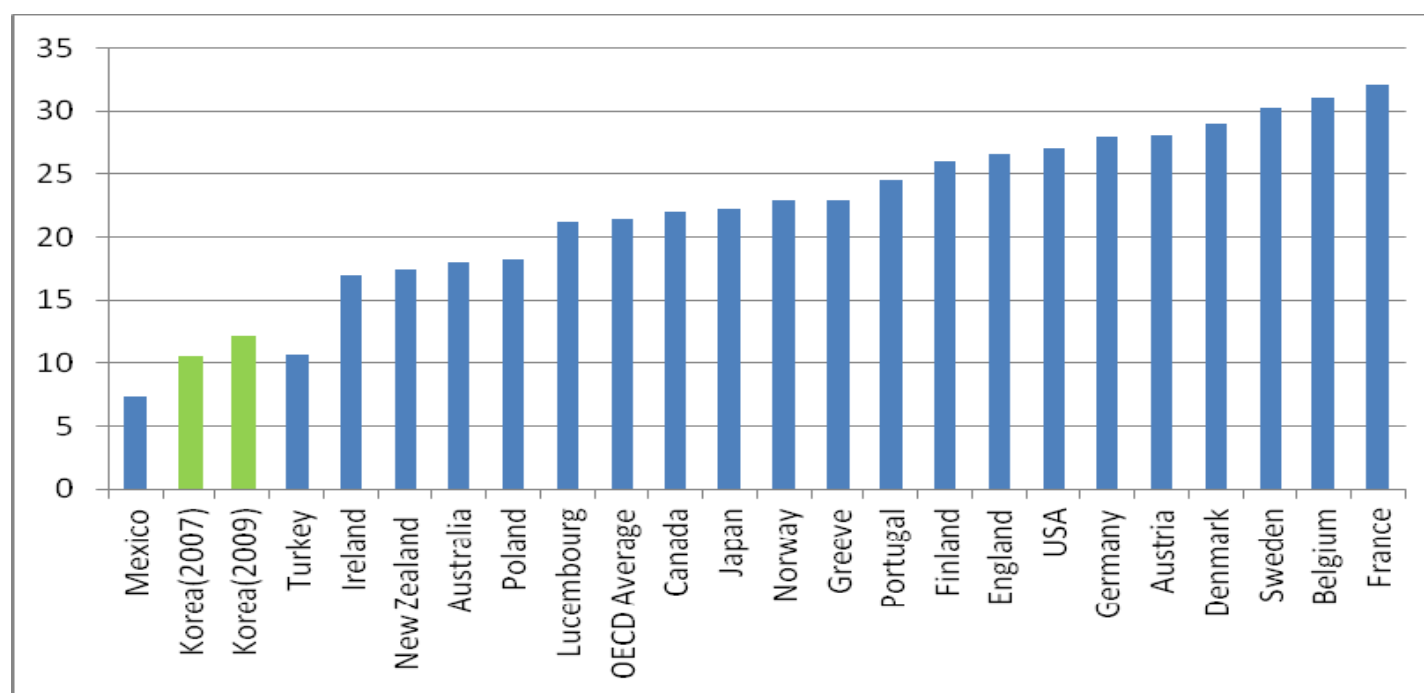


Source: OECD, Social Expenditure Database





## Gross Social Expenditure, International Comparison (2007)



Source: OECD, Social Expenditure Database



**Thank you**